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Prepared By: ZHA, Inc.

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FINAL REPORT

**MARKET STUDY
FOR
BAYVIEW COMMERCIAL AREA**

**Submitted to:
The City of Norfolk, Virginia**

Submitted by:
ZHA, Inc.

October, 1997



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**MARKET OUTLOOKS
FOR THE
BAYVIEW COMMERCIAL AREA
NORFOLK, VIRGINIA**

Submitted to:

The City of Norfolk, VA

Submitted by:

**ZHA, Inc.
Annapolis, MD**

September, 1997



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I. INTRODUCTION AND SUMMARY

This report presents an analysis of the potential viability of commercial uses in the district comprising six parcels located at the intersection of Fisherman's Road and Bayview Boulevard in Norfolk, Virginia ("the Study Area"). This introduction presents a basic summary of key findings; the following sections present more detailed findings regarding the various market and economic factors affecting the Study Area's potential viability for ongoing commercial use and reinvestment.

ANALYTICAL APPROACH AND LIMITATIONS

In conducting research and preparing this analysis, ZHA, Inc. ("ZHA") has applied an analytical approach that investigates market conditions from the general perspective of potential developers, investors and business proprietors. As such, this approach focuses not on any specific business proposal, but on the ultimate practicality of private investments as measured by investors' opportunities for profitable returns.

While this approach provides the most accurate measure of general viability, it cannot always identify the potential that may lie in the particular energies, visions and attitudes, which, under certain circumstances, may enable specific businesses and individuals to overcome market constraints. In recognition of this limitation, Section V provides a rough summary of basic considerations for a hypothetical, individual business that might consider locating in the Study Area.

SUMMARY OF FINDINGS

In General

Spending outflows from the Trade Area surrounding the Study Area indicates that there may be a market opportunity for commercial uses at the nearby commercial areas along Chesapeake Boulevard. The Study Area, itself, however, does not offer a good location for commercial tenants who would require high sales volumes, or who would compete with businesses located in larger commercial centers. The following factors shape this conclusion:



- Accessibility: The Area's relatively poor accessibility (visual and vehicular) constrains its viability, and most commercial tenants would find the location unsuitable.
- Competition: The competitive environment imposes additional constraints. There are two major commercial centers within two miles of the Study Area, and a third -- the Ward's Corner Area -- within three miles. Together, poor accessibility and market competition preclude the viability of new commercial developments or uses that would have to draw from a broad-based market.
- Demographic Trends: While the Bayview neighborhood is a generally stable community, population and households in the surrounding areas comprising the surrounding areas -- as well as the City of Norfolk -- have been declining gradually, and this trend is projected to continue.

Niche Potential

Notwithstanding its limitations, the Study Area offers two basic strengths to potential businesses: (1) low lease rates; and (2) its central location and history within the Bayview community.

The types of tenants who would typically seek this type of location include: (1) small stores catering to the immediately surrounding neighborhood, such as convenience stores, stationery stores, cleaners, hardware stores, etc.; or (2) establishments providing personal or household services that are frequently located through telephone directories, (e.g., insurance, tax preparation, upholstery, remodeling, various types of studios, etc.).

Viability Considerations

Generalized market analyses often fail to identify potential unique opportunities for potential businesses that may place lower emphases upon returns on investment, or that may be positioned to take advantage of community attitudes or other characteristics unique to the local market. At this time, for example, prospective entrepreneurs are currently exploring arrangements to restore a previous business in the area, which would comprise a soda fountain/lunch counter/stationery store.



Necessary conditions, assumptions, and rough calculations for a hypothetical business of this nature are presented in the appendix to this document.

This hypothetical scenario does not provide a "real life" operating projection for a specific business; nor does it necessarily indicate that the proposed business would succeed. The scenario does illustrate, however, that while general conditions do not favor significant reinvestment from the general community, under certain circumstances, individual businesses may be able to succeed in the Study Area. Where this type of business proves infeasible, most other commercial tenants in the Study Area would most likely be lower-profile establishments, motivated predominantly by affordable rent requirements.

Community Objectives and Strategy Directives

Given the likely outlooks for the Study Area, comments from community leaders indicate that the community's primary underlying concern involves the potential for deterioration not just in the commercial area, but in the overall Bayview community as well.

In addressing this concern, two objectives emerge: (1) protection of the Bayview community's essential character; and (2) maintenance and enhancement of existing commercial opportunities. In pursuing these objectives, the City should adopt the following directives:

- Resist significant expansions in the physical boundaries or the range of permissible uses in the Study Area;
- Maintain nearby commercial districts on Chesapeake Boulevard, which provide an amenity to the Bayview community without disrupting the neighborhood's residential character;
- Maintain the predominantly single-family character of the neighborhood;
- Adopt a flexible policy in working with business owners and prospective tenants, in regard to zoning, parking, and other such requirements;
- Enhance commercial viability through shared or flexible parking arrangements; and



- Provide technical assistance new or existing neighborhood business organizations, which can provide valuable resources for member businesses.

At some point, despite all efforts, the continued maintenance of the Study Area as a commercial area may become infeasible. At such time, the primary objective -- maintaining the character of the Bayview community -- would compel the City to consider proactive public measures involving conversion to alternative, noncommercial uses.



II. SITE AND AREA DESCRIPTION

A. BAYVIEW NEIGHBORHOOD

The City of Norfolk's General Plan defines the Bayview neighborhood boundaries as Virginia and Parkview Avenues on the north, Little Creek and Sunset Drive on the east and south, and Chesapeake Boulevard, Leicester Avenue and Atlans Street on the west.

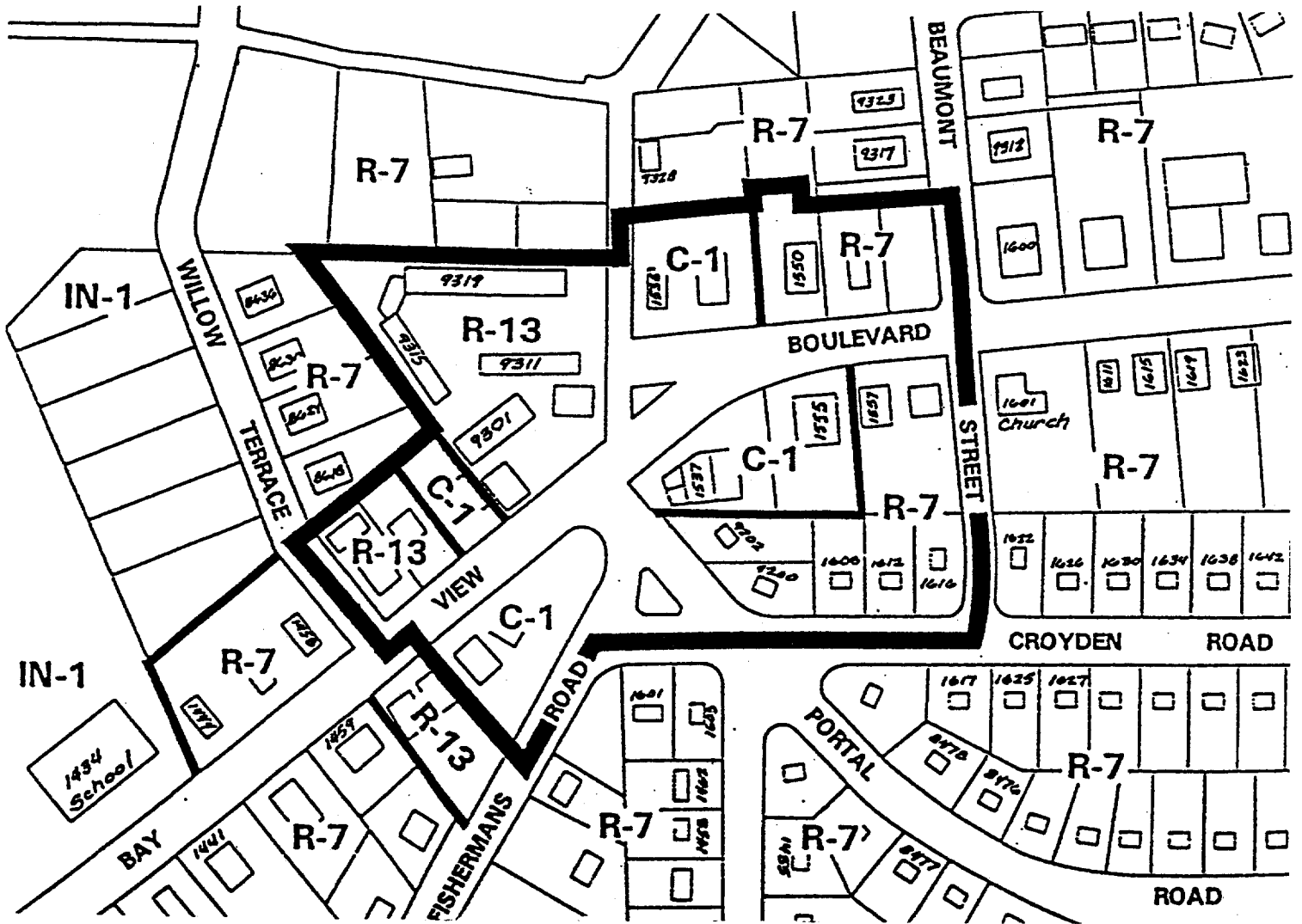
As of the 1990 census, this neighborhood contained 2,858 dwelling units, housing a population of 7,158. The neighborhood is primarily residential in character, with single-family homes comprising the majority of the dwelling units.

B. THE BAYVIEW COMMERCIAL DISTRICT

The Study Area is located in the geographical center of the Bayview neighborhood (see Map 1). The commercial properties comprise six parcels around the five-way intersection of Bayview Boulevard, Fisherman's Road and Portal Road. These parcels are zoned C-1. Permissible uses under this zoning classification includes commercial businesses occupying less than 7,500 square feet of floor space. In addition to retail uses, C-1 districts can be used for schools, churches, and product-related uses such as bakeries, plant shops, art studios, etc.

MAP 1

BAYVIEW COMMERCIAL AREA



Not to Scale



These six parcels contain the following uses:

TABLE 1

COMMERCIAL PROPERTIES IN THE STUDY AREA

| <u>Address</u> | <u>Use</u> | <u>Bldg. Sq. Ft.</u> | <u>Parking Spaces</u> | |
|--------------------|------------------|--------------------------|-----------------------|------------------|
| | | | <u>Available</u> | <u>Required*</u> |
| 1507 Bayview Blvd. | Insurance Office | 2,400 | 11 | 10 |
| 1509 Bayview Blvd. | Garden/Laundry | 1,100 | 20 | 4 |
| 1541 Bayview Blvd. | Vacant/Barber | 4,300 | 9 | 17 |
| 1555 Bayview Blvd. | Grocery | 7,000 | 28 | 28 |
| 1512 Bayview Blvd. | Vacant | 1,700 | 1 | 7 |
| 1542 Bayview Blvd. | Dentist Office** | 1,400 | 10 | 6 |
| Totals: | | 17,900 | 79 | 72 |

* As required by currently applicable zoning regulations.

** Nonconforming use in C-1 district. Nonconforming uses are permitted where such use predates current zoning. The former restaurant at 1541 Bayview Boulevard would also constitute a nonconforming use.

Source: City of Norfolk, Department of City Planning; ZHA, Inc.

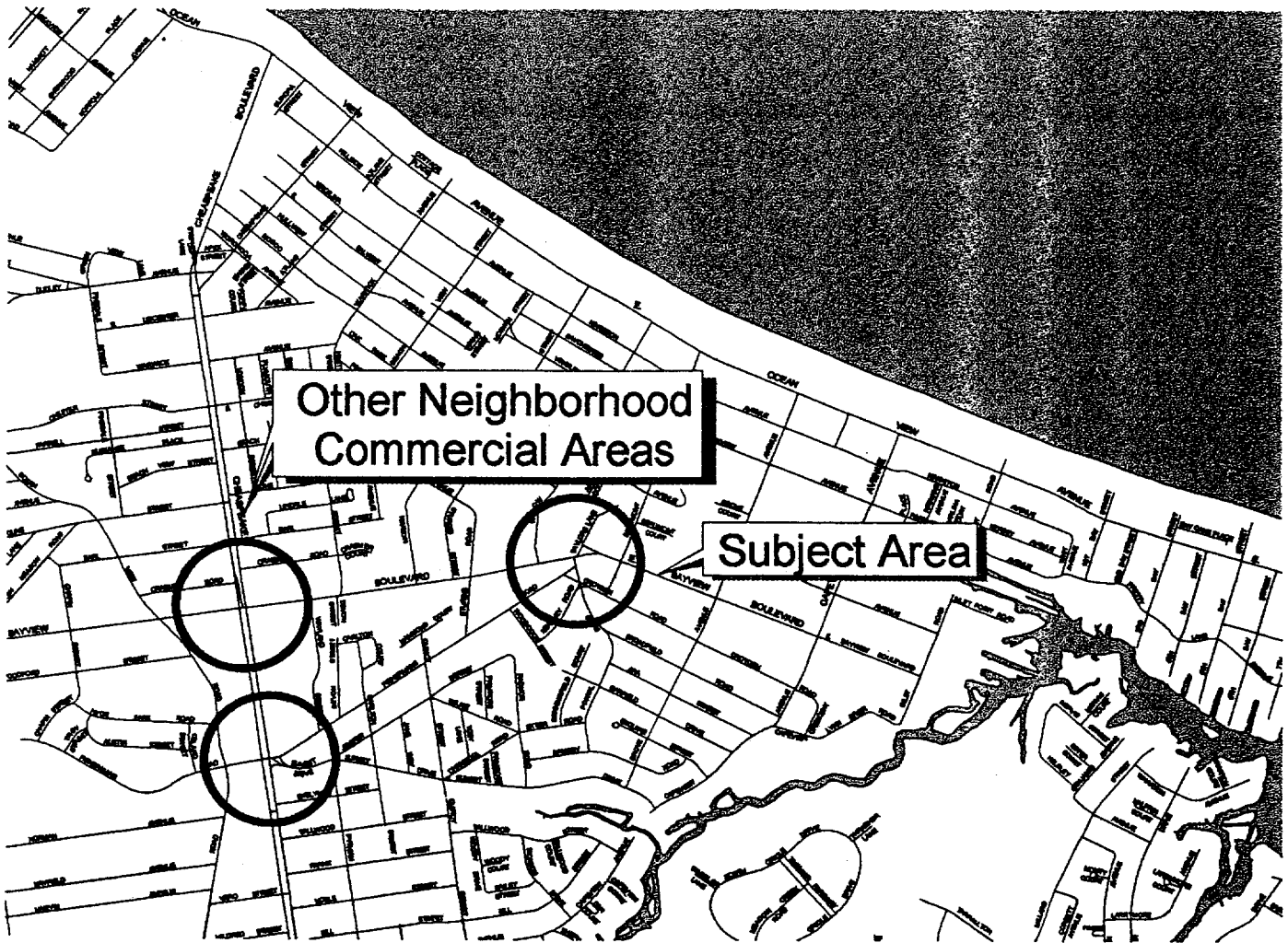
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C. OTHER NEIGHBORHOOD COMMERCIAL DEVELOPMENT AREAS

In addition to the Study Area, a number of other commercial areas serve the Bayview neighborhood. Most prominent among these are two separate areas along Chesapeake Boulevard, on the western fringe of the Bayview neighborhood. These are located at Bayview Road and Fisherman's Road, as shown in Map 2.

MAP 2

BAYVIEW COMMERCIAL AREA AND VICINITY



Not to Scale



The Fisherman's Road center comprises the largest commercial area in the neighborhood. This area, which extends east of Chesapeake Boulevard, contains roughly 20 establishments occupying a total of roughly 67,000 square feet. This district falls within a C-2 zoning district, which permits a wider range of uses (e.g., pawn shops, restaurants) than a C-1 zoning district. The largest establishment in this area is a Be-Lo grocery store. Other tenants include:

- 7-11
- Restaurant
- Tavern
- Bank
- Two (2) Churches
- Two (2) Nail-Care Businesses
- Pawn Shop
- Hobby Shop
- Futon Store
- Hardware Store
- Bible Book Store
- Barber
- Tax Preparation Service
- TV Shop
- Appliance Store
- Elevator Services
- Dentist Office

The Bayview Road intersection contains about 12 establishments, including a 7-11, auto parts store, gas station sandwich shop, 2 pizza parlors, hardware store, laundromat, cleaners, card shop, nail-care business, tailor shop, and dentist office. These occupy a total of 22,000 square feet.

Both of these districts maintain high occupancy rates. With the exception of the Be-Lo store at Chesapeake Boulevard, most of the stores in these areas are small, containing less than 3,000 square feet. These businesses serve approximately the same trade area as the Study Area. In general, these businesses do not include the upscale retailers that typically locate in larger commercial centers. Most of these businesses fit within two categories: (1) small businesses (hardware store, pizza and sandwich shops, laundromat, bank, tavern, etc.) oriented to local neighborhood clientele; and (2) other businesses serving narrow, low-profile niches (bible books, elevator services) within a broadly defined market area; these types of businesses do not require high visibility,



but rely upon telephone directories to attract clientele. Overall, while these businesses vary greatly in their value to the surrounding neighborhoods, the presence of these commercial areas and their neighborhood-serving stores (in the first category above) gives the surrounding neighborhoods a convenient amenity.

In addition to the above, the Study Area's immediate environs contain three other small commercial districts. These are located at the following intersections:

Ocean View Avenue/Chesapeake Boulevard
Chesapeake Boulevard/Chesapeake Street
Ocean View Avenue/Cape View Avenue

These centers each contain small concentrations (2 to 12 establishments) of gas stations, convenience stores, small restaurants, laundromats, and other such uses.

In addition to the local competitors described above, the major commercial centers serving the Bayview neighborhood are the Southern Shopping Center, Ocean View Shopping Center, and the Ward's Corner area. These are all located within three miles of the Study Area, and are described in Section IV.



III. TRADE AREA PROFILES

A. TRADE AREA DEFINITION

1. Factors in Trade Area Definition

In defining the trade area for Bayview's commercial district, ZHA considered a range of factors. These included:

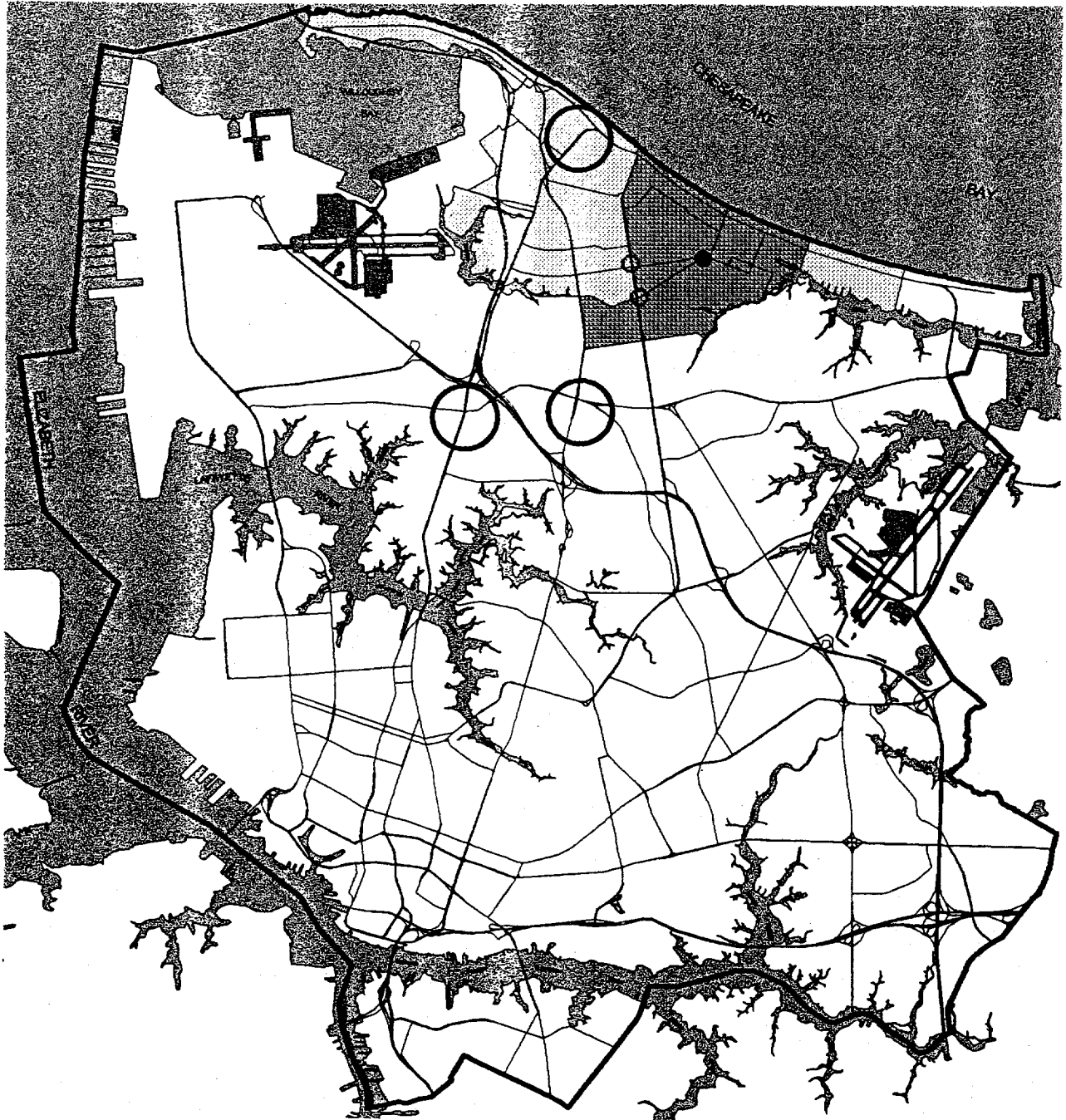
- Interviews with current and former retail operators at and near the site;
- Road networks, traffic patterns, and visibility;
- Review of past studies;
- Locations of competitive commercial areas; and
- General experience and rules of thumb for neighborhood retail centers.

2. Primary Trade Area

The Primary Trade Area for the Study Area, as shown in Map 3, comprises census tracts 1, 2.01, 2.02 and 56.01, an area bounded by the Chesapeake Bay on the north, First Bay Street and Little Creek on the east, Little Creek and Sheppard Avenue on the south, and Chesapeake Boulevard, Fisherman's Road and Tidewater Drive on the west. This area -- encompassing a radius of less than one mile from the Study Area -- has comprised the Primary Trade Area for the existing Be-Lo store in the Bayview Study Area. While most retail centers draw from a wider trade area radius, in this case a number of competitive centers are located within the defined trade area, and a number of major retail areas are located just beyond the trade area boundaries. Moreover, the road networks and traffic patterns would not enable the Study Area to draw a significant volume of demand from more distant locations.

MAP 3

BAYVIEW COMMERCIAL TRADE AREAS



- Subject Area
- Other Neighborhood Commercial Areas
- ⊗ Nearby Major Commercial Areas
- ▨ Primary Trade Area
- ▩ Secondary Trade Area



Not to Scale



3. Secondary Trade Area

The Secondary Trade Area for the Study Area extends east and west of the Primary Trade Area, encompassing census tracts 3, 4, 5, 6, 7 and 8 to the west and 65.01 to the east. As such, the Secondary Trade Area extends east to 15th Bay Street and west to the Norfolk Naval Air Station and the Hampton Roads Bridge Tunnel. The Ocean View Shopping Center is the major commercial center in this area, which does not contain the Ward's Corner and Southern Shopping Centers. Persons in these tracts would have convenient access to the arterial roads serving the Study Area, and most would be able to drive to the Study Area in roughly 10 to 15 minutes.

B. DEMOGRAPHIC ANALYSIS

1. Population and Household Trends and Projections

The Primary Trade Area comprises mature, built-out neighborhoods. Population increased during the 1980s, but has declined from 14,300 in 1990 to 12,800 in 1997, a rate of 1.7 percent per year. Over the next five years, the population is expected to decline further to 11,500.

Household trends have been similar. Recent trends show a decline from 5,800 in 1990 to 5,100 in 1997, a rate of 1.7 percent per year. As with population, these losses are expected to continue, with total households declining to 4,600 by 2002. These figures are shown in Tables 2 and 3.



TABLE 2

POPULATION TRENDS AND PROJECTIONS
SELECTED AREAS: 1980-2002

| | <u>1980</u> | <u>1990</u> | <u>1997</u> | <u>2002</u> |
|------------------------|-------------|-------------|-------------|-------------|
| Primary Trade Area | 13,469 | 14,302 | 12,799 | 11,527 |
| Avg. Annual Growth | | 83 | -215 | -254 |
| Annualized Growth Rate | | 0.6% | -1.6% | -2.1% |
| Secondary Trade Area | n/a | 24,738 | 22,198 | 20,214 |
| Avg. Annual Growth | | n/a | -363 | -397 |
| Annualized Growth Rate | | n/a | -1.5% | -1.9% |
| City of Norfolk | 266,979 | 261,229 | 230,885 | 212,380 |
| Avg. Annual Growth | | -575 | -4,335 | -3,701 |
| Annualized Growth Rate | | -0.2% | -1.7% | -1.7% |

Source: Claritas; ZHA, Inc.
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TABLE 3

HOUSEHOLD TRENDS AND PROJECTIONS
SELECTED AREAS: 1980-2002

| | <u>1980</u> | <u>1990</u> | <u>1997</u> | <u>2002</u> |
|------------------------|-------------|-------------|-------------|-------------|
| Primary Trade Area | 5,365 | 5,810 | 5,145 | 4,620 |
| Avg. Annual Growth | | 45 | -95 | -105 |
| Annualized Growth Rate | | 0.8% | -1.7% | -2.1% |
| Secondary Trade Area | n/a | 10,457 | 9,304 | 8,440 |
| Avg. Annual Growth | | n/a | -165 | -173 |
| Annualized Growth Rate | | n/a | -1.7% | -1.9% |
| City of Norfolk | 87,802 | 89,478 | 80,343 | 73,106 |
| Avg. Annual Growth | | 168 | -1,305 | -1,447 |
| Annualized Growth Rate | | 0.2% | -1.5% | -1.9% |

Source: Claritas; ZHA, Inc.
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Trends in the Secondary Trade Area approximate those in the Primary Trade Area. Total population and households increased in the 1980s, but during the 1990s population has declined at an annualized rate of 1.5 percent, from 24,700 to 22,200. Households declined at this same rate, falling from roughly 10,500 to 9,400. Further declines in both population and households are projected over the next five years.

In addition to the Primary and Secondary Trade Areas, Tables 2 and 3 show population and household trends and projections for the City of Norfolk. In the City, during the 1980s, overall population declined while households increased. This type of pattern is generally attributable to smaller households -- generally younger singles and couples, older empty-nesters and divorcees -- replacing larger households. During the 1990s, the City has sustained losses in households as well as population, with further decline projected for the next five years.



2. Characteristics

In general, demographic profiles in the Primary and Secondary Trade Areas are similar to those in the City of Norfolk. Median income in the Primary Trade Area is roughly \$34,000. This figure is higher than median incomes in the Secondary Trade Area or the City, but the area's *average* household income of roughly \$39,300 is similar to the corresponding figure for the City.

TABLE 4
DEMOGRAPHIC CHARACTERISTICS
SELECTED AREAS

| | <u>Primary Trade Area</u> | <u>Secondary Trade Area</u> | <u>City of Norfolk</u> |
|---|-------------------------------|---------------------------------|----------------------------|
| 1997 Median Age | 31.0 | 29.6 | 29.1 |
| Income Characteristics | | | |
| 1997 Per capita | \$15,807 | \$15,069 | \$14,994 |
| 1997 Median Household | \$34,094 | \$30,504 | \$29,165 |
| 1997 Average Household | \$39,325 | \$35,955 | \$39,265 |
| 1997 Avg. Household Size | 2.49 | 2.40 | 2.56 |
| Percentage of 1990 Pop. Age 25+ w/ College Degree Or Higher Education | 13.50% | 13.10% | 16.90% |

Source: Claritas; ZHA, Inc.

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Median age is slightly higher in the Primary Trade Area than in the Secondary Trade Area and the City. The City of Norfolk contains a higher percentage of college-educated persons than either of the Primary or Secondary Trade Areas.



IV. DEMAND ANALYSIS

A. RETAIL DEVELOPMENT ISSUES: ACCESSIBILITY

Recent changes in retail business practices continue an ongoing transformation, in Norfolk and throughout the nation. This transformation is not a recent phenomenon. Its history encompasses a series of changes that produced the general store, followed by the supermarket and the enclosed shopping mall. In general, this evolution has proceeded in step with the development of suburban communities, as commercial developments have sought convenient access to their increasingly auto-borne shoppers.

Recent advances in this evolutionary process have been driven by price competition. Seeking higher market shares, retailers have been able to achieve lower prices by relying on increasingly higher sales volumes. These trends have produced the "big box" stores of the 1990s. In seeking high sales volumes, these stores rely more than ever on maximum accessibility.

In defining "accessibility" a number of *economic* and *physical* factors must be considered. In general, *economic* factors relate to a business's access to markets and areas of unserved or underserved demands for goods and services. These factors involve the business's:

- Proximity to residential areas;
- Proximity to employment centers;
- Proximity to other major attractions or destinations; and
- Proximity to competitive businesses serving the existing sources of demand.

Physical factors influencing a business's accessibility relate to the physical surroundings that enhance the business's ability to attract clientele. These factors include:

- Traffic volumes on adjacent streets;
- Proximity to major transportation systems;



- Visibility from heavily traveled routes; and
- Parking and congestion issues.

Overall, accessibility continues to drive retail location decisions; consideration of the above factors will shape the desirability of typical retail locations. In evaluating the Study Area's accessibility, subsections B and C below focus on the economic factors, and the following subsection D focuses on the physical site factors influencing the Study Area's accessibility and viability for continued commercial use. The last part of this section summarizes the findings of the earlier subsections, and identifies the potential commercial niches for the Study Area as well as the other commercial areas in the vicinity.

B. ECONOMIC FACTORS: RETAIL DEMAND
AND INFLOW/OUTFLOW ANALYSIS

In determining the level of demand for commercial businesses in the Study Area, this section investigates recent trends in retail sales, and then examines the potential for new commercial development in the Primary and Secondary Trade Areas.

1. Retail Sales

According to the Annual Report of the Norfolk Commissioner of Revenue, in the City's Ocean View district (which approximates the Combined Primary and Secondary Trade Areas) from 1994 to 1996 retail sales maintained generally stable volumes, fluctuating from \$78.5 million in 1994 to \$78.8 million in 1995 and \$78.1 million in 1996.



TABLE 5

RETAIL SALES IN SELECTED DISTRICTS: 1994-1996

| | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|---------------------------|-------------|-------------|-------------|
| Ocean View | \$78.5 | \$78.8 | \$78.1 |
| Southern SC/Tidewater Dr. | \$96.0 | \$96.1 | \$97.1 |
| Wards Corner | \$92.4 | \$92.4 | \$107.3 |
| Little Creek - East | \$29.4 | \$29.4 | \$43.0 |
| Little Creek - Roosevelt | \$16.4 | \$16.4 | \$20.2 |

Source: City of Norfolk, Commissioner of Revenue; ZHA, Inc.
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In contrast, retail sales have increased in the districts immediately south and east of the Primary and Secondary Trade Areas. In the Southern Shopping Center and its surroundings, sales increased slightly from \$96 million in 1994 to approximately \$97 million in 1996. More dramatic increases occurred in the Ward's Corner area, where sales increased from roughly \$92.4 million to \$107 million, an increase of 16 percent. In the Little Creek East area and Little Creek/Roosevelt areas, retail sales over the three-year period increased by 46 percent and 23 percent, respectively.



2. Potential Spending

In determining the potential for commercial development in the relevant Trade Area, the following analysis first identifies the spending potential of the households within the Trade Area, and then compares this potential with the actual retail sales achieved in the Trade Area and its environs.

Within the Primary Trade Area, the average household income of \$39,325 generates the potential for retail spending of roughly \$17,853 for a basket of retail goods and services that includes food, clothing, household goods, entertainment-related purchases (including admission fees), and other miscellaneous goods and services. This total represents approximately 45 percent of total (before-tax) household income. The largest portion of this spending is allocated to food and automotive items: on average, food items consume 16 percent, and automotive items account for 12.5 percent of household incomes. These figures are shown in Table 6 below.

The City of Norfolk shows similar spending patterns. The average household income in Norfolk is \$39,265. Average household spending is slightly lower for the City than for the Primary Trade Area, with total average spending at \$12,336.



TABLE 6
1997 HOUSEHOLD EXPENDITURE POTENTIAL
PRIMARY TRADE AREA AND CITY OF NORFOLK

| | <u>Primary Trade Area</u> | <u>City of Norfolk</u> |
|-----------------------------------|-------------------------------|----------------------------|
| Households | 5,145 | 80,343 |
| Avg. Household Income | \$39,325 | \$39,265 |
| Total Household Income (\$000s) | \$202,327 | \$3,154,668 |
| <u>Food</u> | | |
| Food at Home | \$3,516 | \$3,465 |
| Food Away from Home | \$2,443 | \$2,173 |
| Alcoholic Beverages | \$416 | \$359 |
| <u>Apparel</u> | | |
| Women's Apparel | \$691 | \$627 |
| Men's Apparel | \$384 | \$348 |
| Children's Apparel | \$254 | \$247 |
| Footwear | \$323 | \$312 |
| Other Apparel | \$330 | \$315 |
| <u>Household</u> | | |
| Household Textiles | \$126 | \$116 |
| Furniture | \$492 | \$449 |
| Floor Coverings | \$91 | \$79 |
| Major Appliances | \$193 | \$177 |
| Small Appliances/Housewares | \$120 | \$106 |
| Misc. Household Equipment | \$506 | \$444 |
| Domestic Services | \$467 | \$420 |
| Other Household | \$115 | \$107 |
| <u>Entertainment</u> | | |
| TV/Radio/Sound Equip. | \$681 | \$604 |
| Other Entertainment Equip/Service | \$621 | \$492 |
| Reading Materials | \$285 | \$238 |
| <u>Automobile/Related</u> | | |
| New and Used Vehicles | \$2,117 | \$1,861 |
| Fuel/Oil | \$1,413 | \$1,252 |
| Maintenance/Repair | \$1,396 | \$1,243 |
| <u>Miscellaneous</u> | | |
| Prescription Drugs/Medicines | \$258 | \$270 |
| Smoking Products/Supplies | \$394 | \$351 |
| Home Maint/Repair Supply | \$221 | \$190 |
| TOTAL | \$17,853 | \$16,245 |

Source: Claritas; United States Bureau of Labor Statistics; ZHA, Inc.
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3. Net Demand

Traditional retail market analytical techniques measure the sales expenditures within a given Trade Area against the buying potential of the area's residents. Where potential spending exceeds actual retail sales, this indicates a *net outflow* of local retail spending. This outflow, often referred to as "leakage," identifies a potential opportunity -- given an appropriate location, site, and other factors -- for additional businesses to capture local expenditures that are currently spent outside the Trade Area. Conversely, where actual sales exceed potential spending levels, this indicates a *net inflow* of retail dollars: trade area sales to nonresidents (inflow) exceed resident expenditures outside the Trade Area (outflow).

This technique is most useful where there are large numbers of stores and households within the Trade Area. In the current case, the Bayview Neighborhood and the Primary Trade Area are narrowly defined and do not contain significant commercial concentrations or offer a full range of retail goods and services. Such areas typically show net spending outflows to other areas.

In this situation, a retail demand analysis focuses more appropriately on the larger Trade Area comprising the combined, Primary and Secondary Trade Area ("the Combined Trade Area"), which contains a community shopping center (Ocean View). Applying the expenditure data shown above in Table 6, Table 7 compares total spending potential to total retail sales achieved in fiscal year 1996. In the bottom row of the table, total retail sales is divided by total spending potential. Where this produces a percentage greater than 100 percent, the area achieves sales exactly equal to its spending potential. Where the percentage exceeds 100 percent, the area attracts a net inflow of retail spending from outside the area; where the product is less than 100 percent, the area sustains a net outflow of retail spending.



TABLE 7
RETAIL SALES CAPTURE RATES

| | <u>Primary Trade Area</u> | <u>Combined* Trade Area</u> | <u>City of Norfolk</u> |
|---|-------------------------------|---------------------------------|----------------------------|
| Average Household Retail Spending Potential 1/ | \$17,853 | \$17,853 | \$16,245 |
| Total Households | 5,145 | 14,450 | 80,343 |
| Total Retail Spending Potential | \$91,853,685 | \$257,981,027 | \$1,305,172,035 |
| Retail Sales: 2/ | n/a | \$78,110,796 | \$2,051,126,788 |
| Capture Rate 3/ | n/a | 30.3% | 157.2% |

* Includes Primary and Secondary Trade Areas

1/ Includes retail spending potential for all retail goods and services, as depicted in Table 6

2/ Secondary Trade Area figures include Ocean View and Ocean View Shopping Center sales.

3/ Actual sales divided by spending potential.

Source: Claritas; United States Bureau of Labor Statistics; Norfolk Commissioner of Revenue; ZHA, Inc.
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The table shows an inflow/outflow ratio of 30 percent for the Combined Trade Area. Thus, local household spending outside the Trade Area exceeds the amount that visitors spend in the Trade Area. This net outflow is not surprising, and is attributable to a number of factors, including the Trade Area's:

- Lack of regional shopping centers and limited selection of store types;
- Proximity to the Southern and Ward's Corner commercial centers;
- Lack of "big-ticket" retail goods and services requiring major expenditures, such as automobiles, appliances, etc.;



- Lack of destinations for tourist spending; and
- Proximity to exchanges and commissaries at the Norfolk naval base and East Little Creek Amphibious Center.

In comparison, the City of Norfolk captures a net spending inflow. The City's actual retail sales amounted to 157 percent of its resident spending potential. This is not unusual for cities such as Norfolk, which function as regional centers for employment and which contain tourist attractions and regionally dominant shopping centers.

Overall, while the Combined Trade Area exhibits a significant spending outflow, this is not unusual for a Trade Area of this size. Earlier studies performed by RER Economic Consultants and Norfolk State University School of Business for nearby areas show capture rates for the East Little Creek Road area and the Ward's Corner area, respectively, and these rates range from 10 percent to 90 percent for various goods. More generally, the Ward's Corner study applies an *assumption* that its stores would capture only 33 percent of its Trade Area spending potential.

While any net outflow generally indicates the possibility for some commercial opportunity, much of this outflow will most likely be captured just outside the Trade Area boundaries, within three miles of the Study Area. Moreover, given the constraints of the Study Area (as discussed further below), these opportunities would be limited to specific niches, and to locations along Chesapeake Boulevard or Ocean View Avenue.

C. ECONOMIC FACTORS: MARKET SUPPLY

The major community shopping centers that currently draw shoppers from the Study Area include the Ocean View Shopping Center, the Southern Shopping Center, and the various centers in the Ward's Corner area. The following presents a basic profile of each of these Shopping Centers:

1. Ocean View Shopping Center

The Ocean View Shopping Center is located on Ocean View Avenue at Granby Street. The center contains about 68,000 square feet of retail space. Anchor tenants include Farm Fresh, Revco Drugs, and Family Dollar; others include banks, pizza and fast food restaurants, cleaners, hair care providers, and other establishments providing apparel, shoes, electronic equipment, and other goods and services.



The Center maintains a strong market niche as the primary neighborhood center located north of Little Creek Road. The leasing agent for the Center identifies an approximate two- to three-mile radius as the center's primary market area. The center is 100 percent occupied, and the leasing agent identified average net lease rates for non-anchor tenants at roughly \$9 to \$12 per square foot, with expenses of approximately \$1.60 per square foot. While sales-per-square foot figures are not available, the leasing agent estimates that most stores achieve annual sales volumes of between \$150 to \$200 per square foot.

2. Southern Shopping Center

This shopping center contains approximately 260,000 square feet of retail space. Anchor tenants include Food Lion, Peebles Department Store, Revco Drugs and others; non-anchor tenants include banks, restaurants, and various establishments offering goods and services such as music products, beauty supplies/care, electronics equipment, jewelry, videos, pet supplies, apparel, shoes, etc. A nearby center contains an additional 220,000 square feet anchored by K-Mart.

Although the Southern Shopping Center is currently 80 percent leased, very little space is available for smaller, non-anchor tenants. Net lease rates for smaller tenants is \$12 per square foot, with expenses of roughly \$1.50 per square foot. Overall, this area is a widely recognized retail destination, drawing shoppers from a three- to four-mile radius.

3. Ward's Corner Area

The Ward's Corner area comprises six shopping centers, including the Ward's Corner Mall, the Ward's Corner Shops, Midtown Shopping Center and others. These centers contain a comprehensive range of goods and services in more than 530,000 square feet. The area suffers from congestion at certain times, parking constraints, and lack of connections between the separate centers. In general, these centers maintain occupancy rates of roughly 90 percent, with non-anchor lease rates ranging from \$10 to \$12 per square foot on a triple net basis, with expenses ranging from \$1.50 to \$2 per square foot. The area draws from a three- to four-mile market radius. Among the three major shopping areas, this is the most remote from the Study Area.



D. PHYSICAL FACTORS: COMPETITIVE LOCATION ANALYSIS

Given the dominant positions of the community centers described above, this section presents an analysis of the Study Area's competitive position for commercial uses.

1. Traffic

The Study Area, while easily accessible to the entire Bayview neighborhood, does not offer high visibility. The Site is served by two-lane roads. Of these, Bayview Boulevard is the most significant traffic carrier. The Virginia Department of Transportation's most recent traffic figures on the Bayview segment of Bayview Boulevard show a daily traffic volume of 8,117.

In comparison, traffic on nearby commercial streets near the Bayview neighborhood are estimated as follows:



TABLE 8
24-HOUR TRAFFIC VOLUMES
SELECTED STREET SEGMENTS: 1994

| <u>Street</u> | <u>Between</u> | <u>Volume</u> |
|-------------------|---|---------------|
| Bayview Boulevard | Sturgis -- Willow (Bayview Nbhd) | 8,117 |
| Bayview Boulevard | Chapin -- Old Ocean View (Tidewater -- Chesapeake) | 13,795 |
| Ocean View Avenue | Warwick -- Beach View (East of Chesapeake) | 22,779 |
| Chesapeake Blvd. | Sheppard -- Noble (S. of Fisherman's) | 21,864 |
| Little Creek Rd. | Becket -- Westcliff (Tidewater -- Chesapeake) | 32,577 |

Source: Virginia Department of Transportation; City of Norfolk;
ZHA, Inc.
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In general, commercial developments and commercial tenants seek maximum accessibility and visibility, typically locating near major intersections with average daily traffic volumes ranging from 20,000 to 50,000 vehicles. While the construction of the new community recreation center adjacent to the Bayview Elementary school may bring increased traffic to the area at various hours, Study Area traffic flows do not offer the high visibility that most commercial tenants seek.

2. Proximity to Employment Centers and Destinations

The Study Area does not offer direct proximity to other major destinations. In some types of areas, retail locations can succeed despite a lack of nearby population concentrations, where they are close to tourist attractions, major retail destinations, or employment centers (such as a downtown office core). The Study Area is reasonably close to the Chesapeake Bay shore, as well as the U.S. Navy Little Creek Amphibious Center, which employed roughly 10,800 military and civilian personnel in



1996. This latter feature, however, also offers its own retail centers, which capture some of the spending potential of its employees. Moreover, neither of these features are directly adjacent to the Study Area; both are closer to the commercial centers along Ocean View Avenue, Shore Drive, or East Little Creek Road.

E. COMPETITIVE ANALYSIS AND NICHE POTENTIAL
FOR NEIGHBORHOOD-SERVING COMMERCIAL AREAS

Overall, the Study Area's location does not offer the physical accessibility required to attract most commercial uses. A significant outflow of retail expenditures indicates a possible opportunity within the Combined Trade Area, but this opportunity would most likely be captured in the larger, nearby shopping centers or along major traffic corridors.

In general, the Study Area will not likely be able to attract any businesses that rely upon high sales volumes, or that would compete with existing stores located in major commercial centers. Instead, the types of establishments that might be attracted to the Study Area include: (1) small stores catering to the immediately surrounding neighborhood, such as convenience stores, stationery stores, cleaners, hardware stores, liquor stores, etc.; or (2) establishments providing personal or household services that are frequently located through telephone directories, (e.g., insurance, tax preparation, upholstery, remodeling, various types of studios, etc.). These types of uses are typified by the uses currently existing in the Study Area and in the nearby commercial centers along Chesapeake Boulevard. For the most part, the Chesapeake Boulevard locations maintain a competitive advantage over the Study Area, due to the higher traffic counts and greater visibility along Chesapeake Boulevard as compared to Bayview Boulevard and Fisherman's Road. To the extent that the Study Area can offer lower lease rates, it may provide an acceptable location for some of these types of uses.



V. OUTLOOKS

A. OBSTACLES TO VIABILITY

The Study Area does not offer a good location for new commercial development. The following factors dictate this conclusion:

- Accessibility: The Area's relatively poor accessibility (visual and vehicular) and lack of parking constrain its viability, and traditional shopping center tenants would not find the location suitable.
- Competition: The competitive environment imposes additional constraints. There are two major commercial centers within two miles of the Area, and a third -- the Ward's Corner Area -- within three miles. Overall, while the Study Area will most likely prove viable for some businesses serving narrowly defined market niches (e.g., local neighborhood or specific product), accessibility and market competition preclude the viability of most commercial uses.
- Demographic Trends: While the Bayview Community is generally stable, population and households in the surrounding areas comprising the Primary and Secondary Trade Areas -- as well as the City of Norfolk -- have been declining gradually, and this trend is projected to continue.

B. ASSETS AND POTENTIAL NICHES

While the Study Area holds little potential for many businesses, the stable businesses in the general area attest to its current adequacy for some smaller-scale businesses. The Area offers essentially two assets. The first asset is affordability. Achievable lease rates in this area would range from \$5 to \$6 per square foot, as compared to the \$9 to \$12 per-square-foot rates in the Ocean View Shopping Center. As a result, the area might be suitable for some businesses that (1) seek low rent space, and (2) provide services typically located through telephone directories. Examples of such businesses might include piano tuners, repair shops, studios, tax preparers, and some of the businesses currently occupying the Fisherman's Road/Chesapeake Boulevard commercial area.



The area derives its second asset through its central location and history within the Bayview community. Local residents identify the area as a link to the community's history as well as a community focal point. This type of recognition can provide valuable support to certain types of businesses. Certain types of businesses -- coffee shops, bakeries, lunch counters, hardware stores, etc. -- would benefit from a built-in market at this location.

Overall, given the Study Area's assets and constraints, its most likely commercial tenants fit two basic profiles:

- Local entrepreneurs with specific visions for the property; and/or
- Other miscellaneous businesses motivated primarily by low rent levels.

At this time, for example, prospective entrepreneurs fitting the first profile are currently exploring arrangements to essentially restore the preceding business (Brinn's), with a soda fountain/lunch counter/stationery store in roughly 1,000 square feet of space. Another potential tenant, no longer seeking space, would have conducted a kitchen/bath remodeling business, which would have occupied the Brinn's building with an office and an equipment/supply area. Both of these business concepts are typical of those that might seek space in any of the properties in the Study Area.

As noted previously, traditional analysis would not identify the Study Area as a good or even viable location for new commercial development. This type of analysis, however, focuses on the needs of the *typical* tenant, and the opportunity for a profitable return. As such, market analysis cannot always identify the potential that may lie in the particular energies, visions and attitudes, which, under certain circumstances, can enable businesses and individuals to overcome market constraints. In addition, where individuals conduct a business for reasons of personal satisfaction rather than for a certain minimum profit return, this may enhance their potential for success.

Recognizing the potential shortfalls of a traditional market analysis, the appendix to this document provides some rough but generally reasonable operating calculations for a hypothetical "lunch counter" business in the Study Area.



VI. COMMUNITY OBJECTIVES AND POLICY ALTERNATIVES

A. COMMUNITY OBJECTIVES

Given the likely outlook for the Study Area, there appears to be little community support for any significant expansion to the existing commercial area. Rather, comments from community leaders indicate that the primary underlying concern involves the potential for deterioration not just in the commercial area, but in the overall Bayview community as well. Given its physical and historical position at the center of the community, the deterioration of the Study Area would present a negative image of the overall community, and could eventually contribute to lowered property values and a change in the area's residential character. Overall, the community's concern seems to focus not so much on the commercial vitality of the Study Area as on the desire to maintain the image of the community, which is influenced by the centrally located and highly visible Study Area.

B. STRATEGIC PROGRAM

Essentially, the Bayview community targets the objective of maintaining its existing character. In targeting this objective, two directives emerge. The first directive is to protect the character of the overall community. The second is to maintain the viability of the existing Study Area.

1. Protect Community Character

In pursuing this directive, the City should recognize and respect the community's identity as a small-scale residential community. The City should:

- *Resist Significant Expansions of the Commercial District:* As shown in the demand analysis set forth in Section IV, it would be unlikely that the Study Area could attract a critical mass of commercial tenants. Even if this were feasible, the result would involve higher traffic volumes and a mix of uses that would likely include some low-end types of uses that would erode rather than reinforce the neighborhood's residential stability.
- *Resist Expansion of the Permissible Uses in the Commercial District:* While a broader range of permissible uses could expand the range of potentially



viable uses for the Study Area, many of these uses would undermine, rather than enhance, the image and residential quality of life in the neighborhood.

- *Maintain Nearby Commercial Districts:* The nearby commercial districts, located along Chesapeake Boulevard, provide neighborhood services and amenities without intruding on the basic residential fabric of the community. While these districts compete with the Study Area to a certain extent, the Study Area would not be suitable for many of the businesses in these districts.
- *Maintain Single-Family Character:* While the community has been relatively stable over a number of years, introduction of significant numbers of multi-family dwelling units (in either apartment buildings or in subdivided single-family units), would change the existing character of the community, and disrupt current patterns of homeownership, demographic profiles, and overall neighborhood character. This could in turn contribute to higher turnover and a decline in property values. The effect of this pattern would be detrimental to businesses, which do not seek locations in declining neighborhoods.

2. Maintain Commercial Area Viability

a. Proactive Public Actions Inappropriate

The City's primary tools in affecting urban redevelopment or revitalization involve public land assembly through condemnation, site planning, developer solicitation, and negotiation of complex agreements for the redevelopment of the assembled property.

In the current situation, this approach would not be cost-effective, for several reasons. First, as indicated earlier, the area still has the potential to attract some lower-profile commercial uses. Recent interest in the currently available Brinn's property attests to this potential, and it is likely that the property will be occupied in the near future. Given this potential, the City should not embark upon drastic measures to transform the area.

The second reason for the impropriety of City redevelopment activity involves the likely result. As discussed above, the Study Area location would not be attractive to



most commercial developers or tenants; public efforts to repack the properties would not likely achieve a significant upgrade in the character and intensity of commercial development.

Finally, even in the event that the City were to succeed in significant restoration of the area's commercial vitality, the result might disrupt the residential fabric of the community, thus damaging rather than enhancing the neighborhood's residential character and quality of life.

b. Public Assistance Roles

In light of the foregoing, the City's primary role in serving the Bayview community would involve accommodation and technical assistance, rather than proactive measures. In these roles, the City could:

- *Adopt a Flexible Policy in Working with Business Owners and Prospective Tenants:* For example, where the community supports a proposed business, the City might explore limited rezoning approaches to accommodate desirable business prospects, alternative parking arrangements, and other such arrangements.
- *Enhance Commercial Viability Through Shared or Flexible Parking Arrangements.* As shown in Table 1 on page 4, while individual buildings in the Study Area do not meet current parking requirements, the Study Area's total inventory of parking spaces exceeds the combined total of required spaces. The City should encourage the business owners to enter into a shared parking arrangement.
- *Provide Technical Assistance to New or Existing Neighborhood Community/Business Organizations.* An organization encompassing -- and funded by -- the area's existing business owners could serve a number of functions, including:

Identification of local resources from within the community. While smaller communities do not offer large-scale commercial opportunities, one of the advantages of the close-knit neighborhood involves the neighbors' familiarity and support for one another. A neighborhood business organization could establish a network of



resources involving various business goods and services (i.e., contractors, equipment services, cost estimation, part-time labor, etc.) available from within the community. This type of network would provide convenience and savings to organization members, in the form of new business relationships, word-of-mouth marketing, volunteered or discounted services or supplies, prospective building tenants, etc.

Installation, in cooperation of the City, of attractive landscaping improvements and sign features around the Study Area.

Collective marketing efforts, which might involve sponsorships, advertisements and promotional pamphlets.

Sponsorship and organization of community events or fundraising activities to support local members' business efforts.

Provision of a central communication vehicle for establishing and maintaining communications between property owners and residents regarding the community's interests, concerns, and expectations.

c. Noncommercial Land Use Alternatives

At some point, notwithstanding the efforts of the community, its business owners, entrepreneurs, the City, and other parties, the Study Area may experience increasing vacancies, turnover, physical deterioration, lower rents, (accompanied by lower tenant quality), or other signals of decline. Where these patterns appear and persist, this would signal that the continued maintenance of the Study Area as a commercial area is simply not feasible. Where this occurs, the City must continue to pursue the primary objective of maintaining the character of the overall Bayview community. This situation would compel the City to consider proactive public measures involving conversion to alternative, noncommercial uses.



APPENDIX



APPENDIX

HYPOTHETICAL OPERATING SCENARIO FOR COFFEE SHOP/LUNCH COUNTER BUSINESS

The following presents a hypothetical illustration of the types of operating figures that an owner of a typical coffee shop/lunch county business may encounter. While these figures are not applicable to any specific property or business, it simply provides an illustration of the types of equations that prospective businesses in the Study Area would have to consider.

Gross Revenues:

Many chain restaurants in high-profile shopping malls might generate up to \$350 per square foot per year. In the Study Area, assuming 1,000 square feet of seating area, a small breakfast/lunch restaurant in a viable location might generate \$100 per square foot, or about \$100,000 in gross revenues per year. From this figure, the cost of goods sold varies widely, depending on the type of goods sold. Applying a rough figure of 25 percent, and further assuming that 75 percent of all sales will be subject to the 5.5-percent meal tax, net revenue would amount to roughly \$70,000 per year.

Reasonableness:

In attempting to check the reasonableness of achieving this figure, \$100,000 amounts to approximately \$20 per year for each of the 5,000 households in the Primary Trade Area. As shown in Table 6 above, average spending potential for "food away from home" in the Primary Trade Area is estimated at \$2,433 per household. Thus, the Study Area business would have to capture 0.8 percent of each household's total restaurant spending.

Viewed from another perspective, assuming a six-day week, the business would have to achieve roughly \$235 per day in gross receipts. This could amount to roughly 39 \$6 orders, 79 \$3 orders, or other such combinations.



Expenses:

Assuming that \$100,000 in gross revenues can be achieved, the following operating statement provides a very rough, but reasonable starting point for further investigation.

TABLE A-1

ILLUSTRATIVE OPERATING REVENUES AND EXPENSES
HYPOTHETICAL "LUNCH COUNTER" STORE

| | <u>Assumption 1/</u> | |
|--|----------------------|----------------|
| <u>Revenues</u> | | |
| Gross Sales* | \$100 per s.f./yr. | \$100,000 |
| Cost of Goods | 25% gross sales | \$25,000 |
| <u>Sales/Meal Taxes</u> | 5.13% gross sales | <u>\$5,125</u> |
| Net Sales | | \$69,875 |
| <u>Expenses</u> | | |
| Net Rent | \$6.00 per s.f./yr. | \$6,000 |
| Bldg. Expenses | \$2.00 per s.f./yr. | \$2,000 |
| Salaries | 2.5 FTE | \$50,000 |
| Admin/Supply/Other | | \$10,000 |
| Advertising/Promotion | | \$0 |
| <u>Repair/Maintenance</u> | | <u>\$0</u> |
| Total Operating Expenses | | \$68,000 |
| Net Operating Revenue before Depreciation and Debt Service | | \$1,875 |

1/ Additional assumptions: *1,000 s.f. gross leasable area
**Served meals comprise 75% of sales

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Under current market conditions, it is reasonable to assume a net rent rate of \$6 per square foot, and expenses (insurance, real estate taxes, utilities) of \$2 per square foot. After subtracting these expenses from operating revenues, the proprietor would retain roughly \$62,000 to cover salaries, supplies, general administration, advertising, maintenance, and other miscellaneous costs.



While the assumptions applied in Table A-1 may or may not fit the business plan for the currently proposed business, the table simply frames the economic considerations and challenges that will determine the feasibility of a hypothetical breakfast/lunch restaurant in the Study Area.

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